

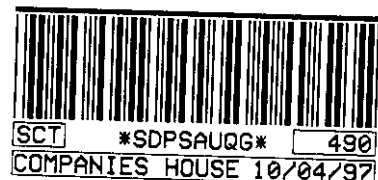


**BUSINESS AIR LIMITED**

**Report and Financial Statements**

**31 March 1996**

**Deloitte & Touche**  
Chartered Accountants  
66 Queen's Road  
Aberdeen  
AB15 4YE





**REPORT AND FINANCIAL STATEMENTS 1996**

<b>CONTENTS</b>	<b>Page</b>
<b>Officers and professional advisers</b>	<b>1</b>
<b>Directors' report</b>	<b>2</b>
<b>Statement of directors' responsibilities</b>	<b>4</b>
<b>Auditors' report</b>	<b>5</b>
<b>Profit and loss account and statement of movements on reserves</b>	<b>6</b>
<b>Balance sheet</b>	<b>7</b>
<b>Reconciliation of movements in shareholders' funds</b>	<b>8</b>
<b>Cash flow statement</b>	<b>9</b>
<b>Notes to the cash flow statement</b>	<b>10</b>
<b>Notes to the accounts</b>	<b>12</b>



## **REPORT AND FINANCIAL STATEMENTS 1996**

### **OFFICERS AND PROFESSIONAL ADVISERS**

#### **DIRECTORS**

I G Woodley (Chairman)  
Sir M D Bishop  
A Reid  
T R P Liddiard

#### **SECRETARY**

Roy Roxburgh

#### **SOLICITORS AND REGISTERED OFFICE**

Iain Smith & Co  
18 - 20 Queen's Road  
Aberdeen

#### **BANKERS**

Bank of Scotland  
103 George Street  
Edinburgh

#### **AUDITORS**

Deloitte & Touche  
Chartered Accountants  
66 Queen's Road  
Aberdeen



## **REPORT AND FINANCIAL STATEMENTS 1996**

### **DIRECTORS' REPORT**

The directors present their annual report and the audited financial statements for the year ended 31 March 1996.

### **ACTIVITIES**

The company's principal activities during the year have been the operation of air charter, contract and scheduled services.

### **REVIEW OF DEVELOPMENTS, FUTURE PROSPECTS AND FINANCIAL POSITION**

The company continued to increase traffic on all its services to Manchester with all connection services coming under a full codeshare programme with its main partner Lufthansa in June, some six months later than originally planned.

The subsequent increase in transfer traffic was considerable.

Whilst the losses being sustained continued to decrease over the term, further funding was required towards the end of the calendar year 1995 to ensure the appropriate net worth for both onward trading and to meet CAA requirements. This was negotiated with the principal shareholders as part of a divestment package brought about by a change in Lufthansa and Crossair shareholding strategy regarding Business Air.

The departure of the principal trade investors enabled the company to pursue additional alliances within the UK and more relevant to the home-market, which culminated in the company becoming a wholly owned subsidiary of the Airlines of Britain Group post year end.

### **DIVIDENDS AND TRANSFERS TO RESERVES**

No dividends have been proposed. The loss after taxation for the year of £2,685,526 (1995: £4,154,589) has been added to the deficit brought forward.

### **SHARE CAPITAL**

At a meeting on 28 January 1996 the authorised share capital of the company was increased from £124,253 to £1,124,253 by the creation of an additional 1,000,000 ordinary shares of £1 each.

On 31 January 1996 40,656 ordinary shares of £1.00 each were allotted at £80.48 per share, £1,972,000 of the subscription price of £3,272,000 being used to pay subordinated loans and other long term debt and the balance used to fund the company's continued development.

## REPORT AND FINANCIAL STATEMENTS 1996

### DIRECTORS' REPORT

#### DIRECTORS

The present membership of the Board is set out on page 1. The directors who served during the year, and their disclosable interests, as defined by the Companies Act, in the shares of the company at 1 April 1995 (or date of appointment) and 31 March 1996 were as follows:

	£1 Ordinary Shares	
	31 March 1996	1 April 1995
I G Woodley	141,671	5,679
A J Duncan	-	-
H Rollin	-	-
P Hach	-	-
W Schmitz	-	-
T Hofmann	-	-

H Rollin, P Hach, W Schmitz and T Hofmann resigned from the board on 31 January 1996. A J Duncan resigned on 25 April 1996.

Sir M D Bishop, A Reid and T R P Liddiard were appointed on 25 April 1996.

#### AUDITORS

On 1 February 1996 our auditors changed the name under which they practise to Deloitte & Touche and, accordingly, have signed their report in their new name. Deloitte & Touche do not intend to seek re-election as auditors of the company at the forthcoming Annual General Meeting.

It is intended that KPMG will be appointed auditors to the company at the Annual General Meeting.

Approved by the Board of Directors  
 and signed on behalf of the Board

  
 Director  
 1 April 1997

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the company and for the prevention and detection of fraud and other irregularities.



## Chartered Accountants

Deloitte & Touche  
66 Queen's Road  
Aberdeen AB1 6YE

Telephone: National 01224 325375  
International + 44 1224 325375  
Telecopier (Gp. 3): 01224 313611

## AUDITORS' REPORT TO THE MEMBERS OF BUSINESS AIR LIMITED

We have audited the financial statements on pages 6 to 18 which have been prepared under the accounting policies set out on pages 12 and 13.

### Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

### Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 March 1996 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Chartered Accountants and Registered Auditors

4 April 1997

**PROFIT AND LOSS ACCOUNT AND STATEMENT OF MOVEMENTS ON RESERVES**

**Year ended 31 March 1996**

	Note	1996 £	1995 £
<b>PROFIT AND LOSS ACCOUNT</b>			
<b>TURNOVER - continuing operations</b>		24,337,127	22,572,200
Cost of sales		(23,048,765)	(23,140,282)
<b>GROSS PROFIT/(LOSS)</b>		1,288,362	(568,082)
Administrative expenses		(3,696,723)	(2,733,840)
<b>OPERATING LOSS - continuing operations</b>		(2,408,361)	(3,301,922)
Other interest receivable and similar income	3	317,917	183,563
Interest payable and similar charges	4	(595,082)	(1,036,230)
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	5	(2,685,526)	(4,154,589)
Tax on loss on ordinary activities	6	-	-
<b>LOSS ON ORDINARY ACTIVITIES AFTER TAXATION AND LOSS FOR THE FINANCIAL YEAR TRANSFERRED FROM RESERVES</b>		(2,685,526)	(4,154,589)
<b>STATEMENT OF MOVEMENTS ON RESERVES</b>			
Balance at 1 April 1995 - deficit			(8,791,694)
Loss for the financial year			(2,685,526)
Balance at 31 March 1996 - deficit			(11,477,220)

There are no recognised gains and losses in the current financial year and the preceding financial year other than as stated in the profit and loss account.





**BALANCE SHEET**  
**As at 31 March 1996**

	Note	1996 £	1995 £
<b>FIXED ASSETS</b>			
Tangible assets	7	121,353	5,541,705
<b>CURRENT ASSETS</b>			
Stocks	8	588,989	614,896
Debtors - due within one year	9	3,405,760	5,744,041
- due after more than one year	9	164,947	577,621
Cash at bank and in hand		1,567,787	914,364
		<u>5,727,483</u>	<u>7,850,922</u>
<b>CREDITORS: amounts falling due within one year</b>			
Trade creditors		3,856,799	6,778,751
Other creditors including taxation and social security	10	159,755	141,889
Accruals and deferred income		37,500	26,054
Obligations under finance leases and hire purchase contracts		-	288,049
		<u>4,054,054</u>	<u>7,234,743</u>
<b>NET CURRENT ASSETS</b>		1,673,429	616,179
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		1,794,782	6,157,884
<b>CREDITORS: amounts falling due after more than one year</b>	11	-	(4,949,576)
		<u>1,794,782</u>	<u>1,208,308</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	14	164,909	124,253
Share premium account	14	13,107,093	9,875,749
Profit and loss account		(11,477,220)	(8,791,694)
		<u>1,794,782</u>	<u>1,208,308</u>
Attributable to equity shareholders		1,794,782	1,208,308

These financial statements were approved by the Board of Directors on 1 April 1997

Signed on behalf of the Board of Directors

Director



**RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**  
**Year ended 31 March 1996**

	1996 £	1995 £
Loss for the financial year	(2,685,526)	(4,154,589)
Issue of share capital	40,656	74,553
Increase in share premium	3,231,344	5,925,563
<b>Net increase in shareholders' funds</b>	<u>586,474</u>	<u>1,845,527</u>
Opening shareholders' funds	<u>1,208,308</u>	<u>(637,219)</u>
<b>Closing shareholders' funds</b>	<u><u>1,794,782</u></u>	<u><u>1,208,308</u></u>



**CASH FLOW STATEMENT**  
**Year ended 31 March 1996**

	Note	1996 £	1995 £
<b>Net cash inflow/outflow from operating activities</b>	1	284,144	(3,129,101)
<b>Returns on investments and servicing of finance</b>			
Interest received		309,602	105,895
Interest paid		(230,593)	(235,651)
Interest element of finance leases and hire purchase rentals		(308,077)	(724,079)
<b>Net cash outflow from returns on investments and servicing of finance</b>		(229,068)	(853,835)
<b>Investing activities</b>			
Purchase of tangible fixed assets		(64,162)	(144,774)
Deferred training expenditure		(252,106)	(504,841)
Deferred route development costs		(79,009)	(134,400)
Disposal of deferred route development costs		-	500,000
<b>Net cash outflow from investing activities</b>		(395,277)	(284,015)
<b>Net cash outflow before financing</b>		(340,201)	(4,266,951)
<b>Financing</b>	4		
Issue of share capital	5	1,300,000	6,000,116
Capital element of finance lease and hire purchase rentals		(306,376)	(212,294)
Subordinated loan repayment		-	(1,340,000)
<b>Net cash inflow from financing</b>		993,624	4,447,822
<b>Increase in cash and cash equivalents</b>	2	653,423	180,871

## NOTES TO THE CASH FLOW STATEMENT

### Year ended 31 March 1996

**1. Reconciliation of operating (loss)/profit to net cash flow from operating activities:**

	1996 £	1995 £
Operating (loss)	(2,408,361)	(3,301,922)
Depreciation	496,853	329,111
Amortisation of deferred training expenditure	639,981	481,710
Amortisation of deferred route development costs	313,184	387,474
Decrease/(increase) in stocks	25,907	(87,959)
Decrease/(increase) in debtors	2,137,220	(2,107,435)
(Decrease)/increase in creditors	(920,640)	1,169,920
Net cash inflow/(outflow) from operating activities	284,144	(3,129,101)

## 2. Analysis of changes in cash and cash equivalents during the year

	£	£
Balance at 1 April	914,364	733,493
Net cash inflow	653,423	180,871
Balance at 31 March	1,567,787	914,364

**3. Analysis of the balances of cash and cash equivalents as shown in the balance sheet**

1996	1996 £	1995 £	Change in Year £
Cash at bank and in hand	1,567,787	914,364	653,423

1995	1995 £	1994 £	Change in Year £
Cash at bank and in hand	914,364	733,493	180,871



# **NOTES TO THE CASH FLOW STATEMENT** **Year ended 31 March 1996**

## **4. Analysis of changes in financing during the year:**

	Share Capital (including premium) £	Loans and finance lease/hire purchase obligations £
<b>1996</b>		
Balance at 1 April 1995	10,000,002	5,237,625
Cash inflow/(outflow) from financing (Note 5)	3,272,000	(306,376)
Foreign exchange movement	-	56,412
Termination of leases	-	(4,987,661)
	<hr/>	<hr/>
Balance at 31 March 1996	13,272,002	-
	<hr/>	<hr/>
	Share Capital (including premium) £	Loans and finance lease/hire purchase obligations £
<b>1995</b>		
Balance at 1 April 1994	3,999,886	6,867,587
Cash inflow from financing	6,000,116	(1,552,294)
Foreign exchange movement	-	(77,668)
	<hr/>	<hr/>
Balance at 31 March 1995	10,000,002	5,237,625
	<hr/>	<hr/>

## **5. Non-cash transaction**

During the year 40,656 ordinary shares of £1.00 each were allotted at £80.48 per share amounting to £3,272,000. Of this amount, £1,300,000 was received in cash and the balance of £1,972,000 was the satisfaction of subordinated loans and other debt.



## **NOTES TO THE ACCOUNTS**

### **Year ended 31 March 1996**

#### **1. ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

##### **Accounting convention**

The financial statements are prepared under the historical cost convention.

##### **Deferred training costs**

Costs arising from the training of new crews on aircraft are deferred and written off over 36 months once training is completed.

##### **Development expenditure**

Certain development expenditure, relating to the costs of setting up new routes and introducing additional aircraft to the fleet, is deferred and written off over three years.

##### **Leases**

Assets held under finance leases are recorded in the balance sheet at the present value of the minimum lease payments. The amounts by which lease payments exceed the recorded lease obligations are treated as finance charges which are amortised over the lease term to give a constant rate of charge on the remaining balance of the obligation.

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the periods of the leases subject to the deferment of costs, if appropriate.

##### **Tangible fixed assets**

The fair value of leased assets is depreciated over the term of the lease. The depreciation charge is allocated to each accounting period ensuring that the combined profit and loss charge for depreciation and interest is spread evenly over the period of the lease.

Depreciation is provided on all assets at rates calculated to write off the cost of each asset over its expected useful life. The annual rates and basis of depreciation are as follows:

Fixtures and fittings	20% to 33.3% straight line
Computer equipment	33.3% straight line
Plant and equipment	20% straight line
Motor vehicles	25% straight line

##### **Stocks**

Stocks are stated at the lower of cost and net realisable value.

##### **Deferred taxation**

Deferred taxation is provided at the anticipated tax rates on differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements to the extent that it is probable that a liability or asset will crystallise in the future.

##### **Foreign exchange**

Transactions denominated in a foreign currency are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. These translation differences are dealt with in the profit and loss account.

**NOTES TO THE ACCOUNTS**  
**Year ended 31 March 1996**

**1. ACCOUNTING POLICIES (Continued)**

**Government grants**

Government grants are recognised in the profit and loss account so as to match them with the expenditure towards which they are intended to contribute.

**Pension scheme**

The company operates a defined contribution pension scheme. The assets of the scheme are held in an independently administered fund.

**2. INFORMATION REGARDING DIRECTORS AND EMPLOYEES**

	1996 £	1995 £
Directors' emoluments		
Other emoluments	94,863	98,816
	<u>94,863</u>	<u>98,816</u>
Remuneration of the chairman and highest paid director	89,864	75,188
	<u>89,864</u>	<u>75,188</u>
Scale of other directors' remuneration	No	No
£0 - £5,000	5	7
£20,001 - £25,000	-	1
	<u>5</u>	<u>1</u>
	£	£
Employee costs during the year:		
Wages and salaries	3,859,675	3,410,897
Social security costs	367,785	335,474
Other pension costs	176,450	153,560
	<u>4,403,910</u>	<u>3,899,931</u>
	No	No
Average number of employees:		
Air crews	118	106
Engineering	7	7
Administration	97	87
	<u>222</u>	<u>200</u>

**3. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME**

Included within other interest receivable and similar income is £NIL (1995: £77,668) representing exchange gains on finance leases.



**NOTES TO THE ACCOUNTS**  
**Year ended 31 March 1996**

**4. INTEREST PAYABLE AND SIMILAR CHARGES**

	1996 £	1995 £
Finance charges - finance leases and hire purchase contracts	308,077	724,079
Other interest	230,593	312,151
Foreign exchange loss on finance leases and hire purchase contracts	56,412	-
	<u>595,082</u>	<u>1,036,230</u>

Other interest represents interest payable to shareholders in respect of funds advanced.

**5. (LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION**

(Loss) on ordinary activities before taxation is after  
 charging/(crediting):

Rentals under operating leases		
Aircraft hire	3,148,976	2,676,841
Other operating leases	75,064	71,454
Depreciation and other amounts written off tangible fixed assets:		
Own assets	179,788	114,840
Assets held under finance leases and hire purchase contracts	317,065	214,271
Amortisation of deferred training costs	639,981	481,710
Amortisation of deferred route development costs	313,184	387,474
Auditors' remuneration:		
Audit fees	37,500	25,000
Other fees	11,345	1,545
Foreign exchange loss/(gain)	94,710	(153,807)
	<u>          </u>	<u>          </u>

**6. TAX ON (LOSS) ON ORDINARY ACTIVITIES**

No tax charge arises in the period due to the availability of trading losses arising in the year and brought forward in the trade.





**NOTES TO THE ACCOUNTS**  
**Year ended 31 March 1996**

**7. TANGIBLE FIXED ASSETS**

	Leased Aircraft £	Motor Vehicles £	Computer Equipment £	Plant Machinery and Aircraft Modifi- cations £	Fixtures and Fittings £	Total £
Cost						
At 1 April 1995	5,648,066	51,840	216,510	199,157	76,555	6,192,128
Additions	-	-	42,895	6,150	15,117	64,162
Disposals	(5,648,066)	-	-	-	-	(5,648,066)
At 31 March 1996	-	51,840	259,405	205,307	91,672	608,224
Aggregate depreciation						
At 1 April 1995	343,340	40,056	123,386	112,671	30,970	650,423
Provision	317,065	7,125	98,783	35,837	38,043	496,853
Disposals	(660,405)	-	-	-	-	(660,405)
At 31 March 1996	-	47,181	222,169	148,508	69,013	486,871
Net book value						
At 31 March 1996	-	4,659	37,236	56,799	22,659	121,353
At 31 March 1995	5,304,726	11,784	93,124	86,486	45,585	5,541,705

The net book value of the company's tangible fixed assets includes £NIL (1995: £5,313,316) in respect of assets held under finance leases and hire purchase contracts.

**8. STOCKS**

	1996 £	1995 £
Goods for resale	59,196	94,353
Consumable stock	529,793	520,543
	<u>588,989</u>	<u>614,896</u>

**NOTES TO THE ACCOUNTS**  
**Year ended 31 March 1996**

**9. DEBTORS**

	1996 £	1995 £
Due within one year:		
Trade debtors	2,670,064	4,289,436
Other debtors	332,555	530,512
Prepayments and accrued income	71,937	147,625
Deferred training costs	259,324	511,910
Deferred route development costs	71,880	264,558
	<u>3,405,760</u>	<u>5,744,041</u>
	£	£
Due after more than one year:		
Other debtors	-	235,888
Deferred training costs	164,947	300,236
Deferred route development costs	-	41,497
	<u>164,947</u>	<u>577,621</u>

**10. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY**

	£	£
This heading includes:		
Taxation and social security	<u>124,227</u>	<u>125,915</u>

**11. CREDITORS: amounts falling due after more than one year**

	£	£
Obligations under finance leases and hire purchase contracts	<u>-</u>	<u>4,949,576</u>
Analysis of repayments of finance leases and hire purchase contracts:		
	£	£
Within one year	-	288,049
Between one and two years	-	364,625
Between two to five years	-	1,564,698
Over five years	-	3,020,253
	<u>-</u>	<u>5,237,625</u>

Obligations under finance leases and hire purchase contracts were secured by related leased assets.

**NOTES TO THE ACCOUNTS**  
**Year ended 31 March 1996**

**12. RELATED PARTY TRANSACTION**

Concurrent with the increase in issued share capital and share premium of £3,272,000 on 26 January 1996, the subordinated loans outstanding to shareholders were repaid.

**13. PROVISIONS FOR LIABILITIES AND CHARGES**

There are no amounts of deferred taxation provided or unprovided at 31 March 1996 and 1995.

**14. CALLED UP SHARE CAPITAL**

Share Capital	1996 £	1995 £
Authorised 1,124,253 (1995: 124,253) ordinary shares of £1	<u>1,124,253</u>	<u>124,253</u>
Allotted and fully paid	<u>164,909</u>	<u>124,253</u>
Share Premium		£
At 1 April 1995		9,875,749
Arising on issue of shares		<u>3,231,344</u>
At 31 March 1996		<u>13,107,093</u>

At a meeting on 26 January 1996 the authorised share capital of the company was increased from 124,253 to 1,124,253 by the creation of an additional 1,000,000 ordinary shares of £1 each.

On 31 January 1996 40,656 ordinary shares of £1.00 each were allotted at £80.48 per share, £1,972,000 of the subscription price of £3,272,000 being used to pay subordinated loans and other long term debt and the balance used to fund the company's continued development

**15. OPERATING LEASE COMMITMENTS**

At 31 March 1996 the company was committed to making the following payments during the next year in respect of operating leases:

	Land and Buildings £	Aircraft and Other £
Leases which expire:		
Within one year	47,616	435,856
Within two to five years	-	<u>2,150,937</u>
	<u>47,616</u>	<u>2,586,793</u>

**NOTES TO THE ACCOUNTS****Year ended 31 March 1996****16. PENSION SCHEME**

The pension cost charge represents contributions payable by the company to a defined contribution plan and amounted to £176,450 (1995: £153,560) Contributions totalling £35,840 (1995: £16,573) were payable to the fund at the year end and are included in creditors.

**17. POST BALANCE SHEET**

On 25 April 1996, the entire share capital of the company was sold to British Regional Airlines (Holdings) Limited.

As a result of the sale, the company's parent company is Airlines of Britain Holdings plc. Copies of that company's financial statements can be obtained from Donington Hall, Castle Donington, Derby.